

Office of Inspector General

Semiannual Report
to the Congress

October 1, 1989
through
March 31, 1990



Farm Credit Administration

1501 Farm Credit Drive
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April 30, 1990

The Honorable Harold B. Steele
Chairman of the Board and
Chief Executive Officer
Farm Credit Administration
McLean, Virginia

Dear Mr. Steele:

This is the second semiannual report on the activities of the Inspector General's office since our office was created on January 22, 1989. This report covers the period from October 1, 1989 through March 31, 1990 and is submitted in accordance with the Inspector General Act of 1978, as amended in 1988. The Act requires that you submit this report to the Director of OMB and the appropriate congressional committees and subcommittees within 30 days, along with any comments you may wish to make.

My primary focus during this period has been to continue to develop policies, procedures, and logistics necessary to meet the intent of the Congress and provide quality products accepted and used by Farm Credit Administration management. It is my goal to further enhance the quality, timeliness, and usefulness of our products during the next few reporting periods. Agency management has, for the most part, continued to be very positive and supportive and has greatly facilitated our progress.

Respectfully,

A handwritten signature in cursive script that reads 'Eldon W. Stoehr'.

Eldon W. Stoehr
Inspector General

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INTRODUCTION

The Farm Credit Administration (FCA) is an independent Federal agency of the U.S. Government and is responsible for the regulation, examination and supervision of the Farm Credit System banks, associations, and related institutions chartered under the Farm Credit Act of 1971. FCA has a staff of about 550 and has a fiscal year 1990 budget of \$36,120,000. About half of the FCA staff are examiners located at 11 field offices throughout the country. Appendix I displays the present organization of the Farm Credit Administration and the Office of Inspector General (OIG) within that organization.

The FCA is a "designated Federal entity" within the meaning of the Inspector General Act of 1978 (Public Law 95-452, October 12, 1978), as amended in 1988 (Public Law 100-504, October 18, 1988) (Act). The OIG was created at FCA on January 22, 1989 in accordance with the Act. During the past six months, the OIG issued four audit reports, conducted six investigations, issued one management letter, followed-up on four previously issued audit reports, and continued to develop and refine the audit plan and policies and procedures for the OIG.

An FCA employee made allegations to the Chairman of the FCA Board (Chairman) in November 1989 about the integrity and credibility of the Inspector General and other officials of FCA. The Chairman, who had assumed his duties on October 12, 1989, contracted with the consulting firm of Riso & Dempsey to provide him with an external, expert analysis of the duties and responsibilities of the OIG and an appraisal of the implementation of the Inspector General Act in FCA. The April 10, 1990 report of Riso & Dempsey concluded that the OIG:

- is free from organizational, personal, or external impairments to independence;
- has a well qualified audit staff;
- has adequate quality control procedures;
- complies with standards for audit performance;
- has adequate procedures for audit evidence;
- is aware of the need for appropriate assessment of internal controls;
- is in general compliance with applicable reporting standards;
- is working to establish adequate audit follow-up procedures; and
- is taking appropriate steps to carry out its investigative responsibilities.

They also found that:

- a personnel situation in the OIG is absorbing an inordinate amount of productive time of the Inspector General (IG) and his counsel, thereby consuming a great deal of time and energy that could be used to advance the work of the office;

- OIG's audit universe is too narrowly focused on activities of FCA and not enough on the problems or potential problems of the Farm Credit System;
- some key FCA officials are not fully aware of the broad responsibilities and authority of the IG;
- there are two minor instances in which the OIG Charter understates the authority of the office as prescribed by the IG Act; and
- audit follow-up procedures should be completed as quickly as possible.

This evaluation does not substitute for the peer review required by 4(b)(2) of the Act but has been valuable in providing OIG with an independent assessment of our progress and constructive recommendations for improvements.

We are in the process of taking the actions necessary to correct the weaknesses cited in the report. Specifically, we are working to resolve the personnel problem as well as completing the procedures on audit follow-up, and revising the charter and the annual audit plan to broaden the scope of our activities.

ORGANIZATION AND STAFFING

The staffing of the OIG includes an assistant IG, an experienced attorney serving as Counsel to the IG who also manages the investigative functions, three full time senior auditors, one part time senior auditor, one secretary, and one part-time clerk. OIG staff are required to participate in continuing professional education activities averaging 40 hours each fiscal year involving a multitude of subjects such as fraud, auditing, and examinations. Appendix II illustrates the OIG internal staffing and organization.

The Inspector General participates in the Coordinating Conference of the President's Council on Integrity and Efficiency (PCIE) and currently leads a task force in developing a peer review program for evaluating the operation of Inspector General offices in "designated Federal agencies" as required by the Act. The Counsel to the Inspector General participates in the Council of Counsels of the IGs and a task force involving other agencies, including OMB, which is proposing an update to OMB Circular A-50 on audit follow-up. The IG and his Counsel attended investigator training sponsored by the National Association of Federal Investigators.

AUDIT REPORTS ISSUED

Audits are conducted in accordance with audit standards established by the Comptroller General of the United States for audits of Federal organizations, programs, activities, and functions.

There were no reports outstanding at the beginning of the reporting period for which management decisions were overdue. We did not issue any audit reports during the past six months which questioned costs or identified funds which should be put to better use. At the end of the period, there were no audit reports outstanding for which management decisions were not made within six months of issuance. Information follows on the four reports we issued.

1. Efficiency and Effectiveness of FCA's Internal Control Evaluation Program -- issued on January 8, 1990. Management agreed with all 7 recommendations and indicated that corrective actions would be taken. In general, we recommended changes calculated to reduce the inefficiency of the existing program. By the end of the reporting period, management had not completed corrective actions although work was underway and milestones had been set. The agency's policy on follow-up was completed in draft by the end of the reporting period and was issued on April 9, 1990. We will follow-up during the next reporting period on the remaining open recommendations.
2. FCA Compliance with FY 1988 Spending Limit -- issued on January 25, 1990. This report did not contain recommendations. We concluded that the agency was under its FY 1988 \$35 million spending limitation by at least \$1 million.
3. Audit of Purchasing and Contracting Functions -- issued on February 12, 1990. We concluded that the agency generally followed sound procurement practices and substantially complied with established policies, procedures and regulations. Our recommendations centered on the need for more complete policies and procedures, better criteria for use in procurement and contracting, and better internal controls. We received management's response to the report on February 20, 1990. By the end of the reporting period, corrective actions were complete on 4 of 13 recommendations. We will follow-up during the next reporting period on the open, unresolved recommendations.
4. Audit of the Jackson Receivership -- issued on March 14, 1990. We concluded that FCA's actions in placing a \$2 billion bank and association into receivership was successful and experienced relatively minor problems. Our recommendations stressed the need for incorporating "lessons learned" into better planning, monitoring, and written guidance for agency actions in future receiverships. Management's final response on the 15 recommendations is due April 26, 1990.

AUDIT RESOLUTION

There were six audit reports with one or more open recommendations at the end of the period. The six reports contained 90 recommendations of which management had taken corrective action on 27 and 63 remained open. Although corrective actions had not been completed for all recommendations by the end of the period, milestones had been set and management was working to complete actions agreed to in the resolution process.

We reported one significant problem in the last semiannual report that involved FCA's accounting system and property controls. Management has developed an entirely new financial management system (FMS) to correct accounting deficiencies and installed it on October 1, 1989. We are currently making an audit of this revised financial management system. Although we have not yet issued the audit report, fieldwork to date indicates that the revised financial management system is fundamentally sound. Management has developed inventory procedures and is committed to completing a physical inventory by the end of this fiscal year.

Completion of the inventory and development of a property management system that is integrated with the financial management system will contribute greatly to FCA's accounting, budgeting and reporting performance.

INVESTIGATION OF MATTERS INVOLVING FCA PERSONNEL, PROGRAMS, AND OPERATIONS

During the period from October 1, 1989 through March 31, 1990, the OIG conducted six investigations, followed up on one investigation from the previous reporting period and closed four investigations. All of these matters involved personnel, programs and operations of the FCA. Three investigations are still in process. All of these investigations were conducted by the OIG. Two investigations were commenced as a result of referral from other Federal agencies and none of the investigations have thus far resulted in referral to the Department of Justice for prosecutorial consideration.

The nature of the preliminary investigations is summarized below in accordance with 8E(h)(2)(C) of the Act:

- a) In three separate cases, an anonymous informant alleged that an FCA employee or contractor was engaging in a conflict of interest or standard of conflict violation. In two of these cases, after thorough investigation, it was concluded that the informant had been totally misinformed regarding the facts. The allegations were not supported and the cases were closed. In the third case, the investigation revealed that the allegation was supportable. The appropriate agency director was informed of the conflict of interest and a decision whether to pursue administrative measures is being considered.
- b) The two investigations referred by other Federal agencies resulted in oversight investigations whereby the OIG requests FCA examiners in the field to assist them in supplying documents from an institution regulated by the FCA so that the issue can be further explored. The OIG is in the process of examining these documents and analyzing the examiners' treatment of the issues.
- c) One allegation received by the OIG consisted of an anonymous letter that acknowledged responsibility for defacement of property owned by a Farm Credit System institution. The letter made threats of further destruction to the property. Through coordination

with the Farm Credit institution, the OIG assured that the local and Federal authorities were made aware of the anonymous acknowledgement and threat contained in the letter.

- d) In the previous semiannual report, on page 4 (2), an investigation concerning certain assets of an FCA receivership was discussed. During this reporting period, there was continual attempt to followup. However, receivership delay in completing the necessary documentation has delayed the verification and closure. OIG has scheduled an on site meeting to be held in late April so that the final aspect of this investigation can be examined and a closing report issued.

REVIEW OF PROPOSED LEGISLATION AND REGULATIONS

Through participation by the Inspector General in the Coordinating Conference to the PCIE and the participation of the Counsel to the Inspector General in the Council of Counsels to the Inspectors General, opportunity for initiation and review of legislation has been ongoing during this reporting period. The PCIE has a legislative committee which compiles responses to legislative initiatives. The legislative proposals are discussed and comments are directed to the legislative committee. In addition, the OIG actively reviews all legislation that directly concerns the FCA and reviews with interest legislative proposals which concern the banking regulatory, farm and inspectors general communities. Legislative changes will be factored into the OIG's planning session to develop an annual audit plan for the upcoming year.

During this reporting period, the Counsel to the Inspector General reviewed all proposed and final regulations on which action was taken within the FCA. It is expected that regulatory action by the FCA will increase during subsequent reporting periods, in that during this reporting period an FCA Board quorum was established that was lacking in the previous reporting period.

Farm Credit Administration
Office of Inspector General



Eldon W. Stoehr, Inspector General
October 13, 1989

